RELATED PARTY TRANSACTION POLICY

THABO MOFUTSANYANA DISTRICT MUNICIPALITY	
Subject: Related Party Transaction Policy	Policy No:
Directorate: Finance	Council Item No:
Sub-Directorate: Finance	Date Approved:
Custodian:	Effective Date:
Last date of review:	Reference:

THABO MOFUTSANYANA DISTRICT MUNICIPALITY

Related Party Transaction Policy

TABLE OF CONTENTS

ABBREVIATIONS

MFMA	Municipal Finance Management Act, No. 56 of 2003
GRAP	Generally Recognised Accounting Practice
AFS	Annual Financial Statement
TMDM	Thabo Mofutsanyana District Municipality

TERMINOLOGY AND DEFINITIONS

Close members of the family – *are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity. As a minimum, a person is considered to be a close member of the family of another person if they:*
  a) *are married or live together in a relationship similar to a marriage; or*
  b) *are separated by no more than two degrees of natural or legal consanguinity or affinity.*

Control – is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party – is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
  a. A person or a close member of that person's family is related to the reporting entity if that person:
   i.   has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the management of the entity or its controlling entity,

  b. An entity is related to the reporting entity if any of the following conditions apply:
   i.   the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
   ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
   iii. both entities are joint ventures of the same third party;
   iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   v.   the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;

vi.   the entity is controlled or jointly controlled by a person identified in (a); and

vii.   a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Related party transaction – is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Arm's length transaction – a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

Significant influence – is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Key management personnel – are those persons having authority and responsibility for planning, directing, and controlling the activities of the municipality, directly or indirectly, including any directors (whether executive or otherwise) of the municipality.

Relative – with reference to any person, means anyone who is related to another, if—

✓ They are husband and wife; or

✓ One person is related to the other in such manner as may be prescribed in the following persons who shall be deemed to be the relative of another, if he or she is related to another in the following manner:

Father: term "Father" includes step-father;
Mother: term "Mother" includes the step-mother;
Son: term "Son" includes the step-son;
Son's wife;
Daughter;
Daughter's husband;
Brother: term "Brother" includes the step-brother;
Sister: term "Sister" includes the step-sister

SECTION 1: LEGISLATIVE REQUIREMENTS

The Municipal Finance Management Act, No. 56 of 2003 [MFMA] in Chapter 12 provides guidance on the preparation of financial statements, other allocations and other compulsory disclosures.

SECTION 2: OBJECTIVE

The objective of this policy is to define the responsibilities and prescribe the accounting treatment and presentation that Thabo Mofutsanyana District Municipality to comply with in terms of the MFMA and GRAP Standard 1 and GRAP Standard 20 in respect of related party transaction.

The policy document addresses the following areas:
- The Accounting policy with respect of related party transaction
- Guidance on the identification and accounting treatment of related party transaction
- Guidance on the disclosure requirements of related party transaction.

SECTION 3: ACCOUNTING POLICY

The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for all payment approval and processing, including related party transactions. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported on.

The objective of GRAP 20 Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

SECTION 4: CONTROL MEASURE ON RELATED PARTY TRANSACTION

The Accounting Officer shall identify all Related Parties for TMDM on the basis of disclosures received from the Executive (Councillors), Directors and Managers and other supporting documents/ information. The names of all Related Parties identified shall be consolidated, as a Related Party Reference List / Disclosure of Business Interest List and this Reference List as amended from time to time shall be progressively shared with the Budget and Treasury Office (SCM Unit), for compliance at their end.

The Executive / Directors and managers are mandated to promptly communicate to the Accounting Officer any changes in the initial disclosure submitted by them. The Accounting Officer shall update the Related Party Reference List on the basis of intimations received from the Executive, Directors and/or Managers as informed from time to time.

SECTION 5: IDENTIFICATION AND ACCOUNTING TREATMENT OF RELATED PARTY TRANSACTION

Related party relationships exists when one party has the ability to **control**, directly, or indirectly through one or more intermediaries, the other party or exercise **significant influence** over the other party making financial and operating decisions.

Such relationship also exists between and/or among the entities, which are under common control with the reporting enterprise, or between and/or among the reporting entities and key management personnel, directors, or its shareholders.

In considering each possible related party relationship, attention is directed to the substance of relationship and not merely the legal form.

As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- Is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
- The entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled is related to the others);
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
- Both entities are joint ventures of the same third party;
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- The entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
- The entity is controlled or jointly controlled by a related person; and

    o A person who has control or joint control over the reporting entity has significant influence over that entity or is a member of the management of that entity (or its controlling entity

Where two entities have a member of management in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that two entities have a member of management in common does **not necessarily** create a related party relationship.

The following other instances also do **not necessarily** create related party relationships:
- A customer, supplier, distributor or general agent with whom an entity transacts a significant volume of business, **merely** by virtue of the resulting economic dependence.
- Two ventures **merely** because they share joint control over a joint venture;
- Providers of finance and trade unions;

Other factors could, however, result in the parties being related.

5.1. Close member of the family of a person

Judgement will be necessary in determining whether a person should be identified as a close member of the family of another person for purposes of application of this policy. In the absence of information to the contrary, such as where a spouse or other relative is estranged from the person, immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of that person. At a minimum, the following should be considered to be close members of the family:
a) that person's children and spouse or domestic partner;
b) children of that person's spouse or domestic partner;
c) dependants of that person or that person's spouse or domestic partner;
d) a grandparent, grandchild, parent, brother or sister; and
e) a parent-in-law, brother-in-law or sister-in-law.

5.2. MANAGEMENT

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Management include any sub-committees of the governing body or key advisors of a member of management as well as the senior management group of the entity (if not part of the governing body of the entity).

Management hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. This responsibility may enable them to influence the decisions of the entity and therefore the benefits of office that may flow to them or their related parties.

In respect of a municipality, the accounting authority or all the members (e.g. major, speaker, council members), and their close family relatives, are related parties of the municipality.

The senior management team of entities across all spheres of government (including the chief executive or permanent head of the entity) also form part of management.

SECTION 6: GENERAL DISCLOSURE REQUIREMENTS OF COMMITMENTS

6.1. Disclosure of related party transactions

If TMDM has had related party transaction during the periods covered by the financial statements, TMDM shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosures would be made separately for each category of related parties and would include:

- the amount of the transactions
- the amount of outstanding balances, including terms and conditions and guarantees or commitments
- provisions for doubtful debts related to the amount of outstanding balances
- expense recognised during the period in respect of bad or doubtful debts due from related parties

The following are examples of transactions that are disclosed if they are with a related party:
   a) purchases, transfers or sales of inventory (finished or unfinished);
   b) purchases, transfers or sales of property or other assets;
   c) rendering or receiving services;
   d) leases;
   e) transfers of research and development;
   f) transfers of license agreements;

g) transfers under finance arrangements (including loans and contributions to net assets in cash or in kind and other financial support including cost sharing arrangements);

h) provisions of guarantees or collateral; and

i) settlement of liabilities on behalf of the entity or by the entity on behalf of the related party

6.2. Disclosure of control

Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties. An entity shall disclose the name of its controlling party and if different, the ultimate controlling party.

6.3. Disclosure of remuneration of management

An entity shall disclose the remuneration of management per person and in aggregate, for each class of management, in the following categories:

a) fees for services as a member of management;

b) basic salary;

c) bonuses and performance related payments;

d) other short-term employee benefits;

e) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

f) termination benefits;

g) other long-term benefits;

h) any commission, gain or surplus sharing arrangements; and

i) any other benefits received.

SECTION 7: SHORT TITLE

This Policy is the Related Party Transaction Policy of the Thabo Mofutsanyane District Municipality.

SECTION 8: IMPLEMENTATION

This Policy has been approved by Thabo Mofutsanyane District Municipality in terms of resolution…………………….dated…………………….and comes into effect from……………………